

# FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer & Business Education

## New Bankruptcy Law Requires Credit Counseling Before Filing

If you are considering filing for bankruptcy, you should know about one major change to the bankruptcy law: Beginning October 17, 2005, you must get credit counseling from a government-approved organization within six months *before* you file for bankruptcy protection. You can find a state-by-state list of government-approved credit counseling organizations at [www.usdoj.gov/ust](http://www.usdoj.gov/ust). That is the website of the U.S. Trustee Program, the organization within the U.S. Department of Justice that administers bankruptcy cases.

As a result of Hurricane Katrina, the U.S. Trustee Program has temporarily waived the credit counseling requirement for consumers who are filing for bankruptcy in Louisiana and the Southern District of Mississippi.  
For more information, visit [www.usdoj.gov/ust](http://www.usdoj.gov/ust).

### Credit Counseling Requirements

Generally, credit counseling organizations advise consumers on managing money and debts and developing a budget; most usually offer free educational materials and workshops. The credit counseling required by the new bankruptcy law can take place in person, on the phone, or online. You can expect your counseling session to last about 90 minutes and to include an analysis of your budget. The credit counseling organization can charge you a reasonable fee for its services. Credit counseling organizations on the U.S. Trustee's list must waive the fee for anyone who can't afford to pay. Fees may be in the \$50 range, but could be higher depending on where you live, the types of services you receive, and the administrative costs of the credit counseling organization. Once you have completed the required counseling, you must obtain a certificate as proof. Check the U.S. Trustee's website to be sure that you receive the correct certificate for the bankruptcy court where you will be filing for bankruptcy. Some credit counseling organizations may charge extra for the certificate.

Sometimes, credit counseling organizations recommend and negotiate a debt management plan (DMP) for their clients. In a DMP, you deposit money each month with the credit counseling organization, which, in turn, uses your deposits to pay your credit card bills, student loans, medical bills, or other unsecured debts according to a payment schedule they've worked out with you and your creditors. Sometimes, creditors agree to lower interest rates or waive certain fees if you are repaying your debts through a DMP. A DMP is not required for consumers who are filing for bankruptcy. If you do go the DMP route, you will need to provide a copy of the plan to the bankruptcy court when you file for bankruptcy.

## Important Questions to Ask When Choosing a Credit Counselor

As with any important decision about your finances, it's wise to take an active role in choosing a credit counseling organization. Once you have the list of organizations approved by the U.S. Trustee Program, call several of them to gather information before you make your selection. Some key questions to ask are:

- What services do you offer?
- Will you help me develop a plan for avoiding problems in the future?
- What are your fees?
- What if I can't afford to pay your fees?
- What are the qualifications of your counselors? Are they accredited or certified by an outside organization? What training do they receive?
- What do you do to keep information about me (including my address, phone number, and financial information) confidential and secure?
- How are your employees paid? Are they paid more if I sign up for certain services, if I pay a fee, or make a contribution to your organization?
- Suppose I want only the credit counseling services and budget analysis that are required before I can file for bankruptcy relief. How much will these services cost? What services will your company provide? How will I know that I have the correct certificate I need to file for bankruptcy? Does the certificate cost extra? If so, how much?

## For More Information

To learn about other changes in the bankruptcy law and how they affect consumers who want to file for bankruptcy beginning October 17, 2005, visit [www.usdoj.gov/ust/bapcpa/index.htm](http://www.usdoj.gov/ust/bapcpa/index.htm). For more information about credit issues and choosing a credit counselor, visit [www.ftc.gov/credit](http://www.ftc.gov/credit).

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit [www.ftc.gov](http://www.ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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October 2005